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Saturday April 16, 1977

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National Intelligence Daily Cable for Saturday April 16, 1977.

The NID Cable is for the purpose of informing senior US officials.

CONTENTS

|                                   |         |
|-----------------------------------|---------|
| RHODESIA: Political Challenge     | Page 1  |
| PAKISTAN: Situation Report        | Page 3  |
| PHILIPPINES: Election Day         | Page 4  |
|                                   |         |
| USSR-US Pravda Editorial on SALT  | Page 7  |
| USSR-AFGHANISTAN: Daoud Visit     | Page 7  |
| CHINA: Military Modernization     | Page 8  |
| BRAZIL: Toward Authoritarian Rule | Page 9  |
| CANADA-AUSTRALIA: Wheat Dialogue  | Page 10 |
| MEXICO: Economic Leadership       | Page 12 |

RHODESIA: Political Challenge

25X1 [ ] Rhodesian Prime Minister Smith faces what may prove to be a major challenge from a faction in his Rhodesian Front Party that is critical of the concessions he has offered the country's black majority and wary of his plan to try for an independent settlement. A special congress of the party on Monday is to hold a vote of confidence on Smith. If the party splits badly, Smith may believe he has no choice but to dissolve parliament and call a new election. If the Prime Minister gets a strong endorsement, he will probably also be given the free hand he says he needs to negotiate a constitutional settlement.

25X1 [ ] The split in the Rhodesian Front was brought on by 12 members of parliament--including Deputy Minister Sutton-Pryce and former defense minister Cowper--who voted against Smith's Land Tenure Amendment Bill. The bill squeaked through parliament last month with exactly the two-thirds majority vote necessary. Actually, the new law has little real meaning. Blacks, with an average income one tenth that of whites and with virtually no access to credit, are in no position to buy land previously reserved for whites.

25X1 [ ] The defection of the 12 members of parliament has precipitated a major debate between Smith and party hard-liners over the Rhodesian Front's future policies. Smith proposed the amendment on the grounds that it was necessary in order to show the world the Rhodesian government's good faith in negotiating a settlement leading to majority rule. The 12 dissidents charge that the amended bill violates the party's platform by promoting "forced integration."

25X1 [ ] The 600 delegates to the special congress on Monday will be asked to decide whether Smith has gone too far in making concessions for an independent settlement or has not gone far enough. The major resolution before the congress calls for a vote of confidence in Smith, who is president of the party as well as prime minister. Smith needs a two-thirds majority of the delegates to carry a confidence vote. We do not have enough information on which to base a prediction of the outcome.

25X1 [ ] Smith has set himself on a collision course with the party's right wing. He intends to ask the congress for a free

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hand in negotiating a settlement. The 12 dissidents have submitted a written request to the congress--which Smith is obliged to answer--demanding that he spell out his plans for reaching an independent settlement. They fear that he is ready to make further concessions to Rhodesia's blacks--and, by implication at least, the nationalists--if he deems it necessary.

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[ ] Most of the 12 dissidents represent rural constituencies. Although they are outnumbered in parliament by those who supported the amendment bill, the party's national voting power is weighted heavily in favor of the rural constituencies. It is quite possible that Smith's support among the delegates to the congress will be significantly weaker than it is in parliament.

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[ ] The dissident members of parliament represent a hard-line faction in the party that has been dissatisfied with Smith's leadership for some time and that now apparently believes it has an issue that Smith may not be able to avoid.

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[ ] The party's hard-liners believe Smith has allowed himself to be placed increasingly on the defensive in responding to local and international pressures and, therefore, has been unable to deal effectively with Rhodesia's problems.

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[ ] They believe Rhodesia should wage all-out war against the guerrillas and should not negotiate a settlement with "reasonable" blacks until the guerrillas have been completely suppressed. They are convinced that any eventual settlement should be worked out through a process similar to the constitutional conference on Namibia--that is, a conference composed of whites and tribal representatives with decisions reached by consensus, a process that gives whites a built-in veto.

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[ ] Such a process implies implementation of "provincialization," a variation on South Africa's Bantustan policy that has long been a dream of the party's right wing, but which has consistently been rejected by Smith.

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[ ] Smith would like to avoid a general election, but he recognizes the impracticality of governing with less than a

full mandate. Smith has sought to exploit the natural advantage of the incumbent at a time of crisis. He has argued that the problems facing Rhodesia demand that the party give him a free hand.

25X1 [ ] Smith has faced an obstreperous right wing in the party throughout his career as Prime Minister. Until now he has been able to keep party disputes from being aired publicly by convincing party members that unity was vital to solving Rhodesia's problems. The gap between the right-wingers and the so-called moderates--until now at least--was narrow enough for him to cast his policies in language acceptable to both sides.

25X1 [ ] Now that the gap has widened and Smith's policies are being publicly called into doubt, the immediate question for many Rhodesians is not the crisis facing their country, but the principles to be adhered to in solving the crisis. There is enough uncertainty in Rhodesia over what those principles should be that a general election may be necessary if the special congress cannot resolve the uncertainty.

25X1 [ ] If the congress upholds Smith, he can probably avoid a general election and gain the free hand he says he needs. The hard-liners probably do not want Smith ousted; they have no one of stature to replace him. What they apparently hope to do is to convince the party to place strong curbs on his future actions. [ ]

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#### PAKISTAN: Situation Report

25X1 [ ] //A resolution of Pakistan's political crisis appears to be at least several days off. Major demonstrations yesterday underlined the opposition's ability to mobilize the public against Prime Minister Bhutto but did not lead to the level of violence that would force immediate military intervention. The opposition has rejected Bhutto's latest proposal for a compromise. [ ]

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25X1 [ ] The opposition staged large processions in most Pakistani cities yesterday. A few buildings were burned, and several people were killed, most of them apparently in shooting between demonstrators and members of Bhutto's party.

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[ ] Violence was at a low level, compared with earlier demonstrations, probably because the police reduced their efforts to break up the protests. Press reports seem to indicate that opposition processions met little interference.

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[ ] Bhutto's latest proposal, although rejected by the opposition, was his most forthcoming yet. He offered to hold new provincial assembly elections, and if the opposition--which boycotted the provincial elections last month--won, to hold a new National Assembly election. The opposition is still demanding that Bhutto resign and that a new National Assembly election be held.

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#### PHILIPPINES: Election Day

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[ ] *Filipinos go to the polls tomorrow in 13 southwestern provinces to determine the size of an autonomous area for the Muslim minority. Self-government for the Muslims will probably be approved only in the five provinces where they have a substantial majority--provided the Muslims participate in the voting, which is still uncertain.*

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[ ] //Philippine officials expect the vote to result in a resounding defeat for the Moro National Liberation Front,

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the Muslim political organization. The government also hopes to create or exploit splits and jealousies among the front's leadership in the post-election period.//

25X1 [ ] //The front has reportedly urged its members to boycott the referendum. The Islamic Conference, which has watched over the negotiations between the Philippine government and Muslim rebels, also supports a boycott. Conservative Arab states are not happy with Libyan President Qadhafi's pre-eminent role in the negotiations concerning the Philippine Muslim problem.//

25X1 [ ] //President Marcos remains confident that a major military conflict is unlikely to result from the referendum. He told the US ambassador on Wednesday that, if fighting resumed, he thought it would be carried out by only a small fraction of the Muslim rebels.//

25X1 [ ] At Marcos' request, Catholic bishops in Mindanao have impressed on their congregations the need to avoid communal bloodshed. The bishops are close to the scene and are possibly reflecting Christian concern over living under even token Muslim control and are therefore generally pessimistic about the situation.

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# USSR-US Pravda Editorial on SALT

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[redacted] *Pravda's* authoritative editorial Thursday on the US SALT proposals appears intended primarily to rebut Western accounts of Secretary's Vance's talks in Moscow and especially to counter suggestions from Washington that the Soviets may eventually be persuaded to the US view. It also represents an effort to turn the US back to the Vladivostok framework. Although notable for its defensiveness and extraordinary specificity, the article was essentially a restatement of previous Soviet arguments.

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## USSR-AFGHANISTAN: Daoud Visit

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[redacted] *The Soviets probably view the major benefits of Afghan President Daoud's visit to the USSR this week to be his qualified endorsement of their Asian security ideas and his willingness to sign a longer term economic agreement with the USSR. Daoud, for his part, probably was pleased with Moscow's public endorsements of his recent constitutional changes and Afghanistan's efforts to improve relations with Pakistan.*

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[redacted] The USSR has been attempting since 1969 to generate interest in establishing a system of collective security in Asia but has had very little success. The language agreed to this week is not as specific as that Daoud accepted during his visit in 1974, but the Soviets will be able to use it to paint a picture of growing Asian acceptance of the collective security idea.

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[redacted] To help improve its own planning, Moscow in recent years has been promoting longer term economic agreements with practically all the Western and third world countries with which it has extensive economic dealings. The text of the new economic agreement with Afghanistan is not yet available in Washington, but it presumably is similar to such agreements with other countries. These agreements generally call for expanding economic ties and examining the prospects for closer cooperation on certain specific projects.

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## CHINA: Military Modernization

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[REDACTED] Several articles in the Chinese press early this week, shortly before the scheduled opening of a major national industrial conference, suggest continuing and possibly increased concern among China's military leaders that military modernization might be slowed under the current economic plans.

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[REDACTED] The articles, quoting from Marxist literature, argue for increasing efforts to accelerate the pace of military modernization. Summing up the argument, one article insisted that "in the world of today (China) should not remain at the present level of equipment in order not to be bullied by others."

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[REDACTED] The articles were attributed to relatively low-level military units. If more such articles appear and carry more authoritative attribution, they may signify that China's military leaders are unified and intend to argue forcibly for additional resources. In that case, Party Chairman Hua Kuo-feng will be faced with a difficult choice between cutting into civilian economic programs or standing fast against a military leadership to which he is largely indebted for his position.

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[REDACTED] Debate over defense spending has simmered since late last year when Peking began planning an economic recovery program that seemed to contain a reduction in the military's share of the national budget. At that time, some articles that supported the civilian side of the issue pegged military modernization to growth in the civilian industries. [REDACTED]

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BRAZIL: Toward Authoritarian Rule

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[REDACTED] Brazilian President Geisel has issued a series of decrees aimed at reducing the influence of civilian politicians in the government. These measures are a major departure from Geisel's previous moves, which were aimed at a modest increase in popular participation in government.

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[REDACTED] Early this month, Geisel invoked extraconstitutional powers to suspend the Brazilian congress for two weeks after it failed to approve a government-sponsored judicial reform bill. This week, Geisel enacted the reform measure, which substantially increases and centralizes the authority of the Supreme Court, which is composed of presidential appointees.

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[REDACTED] He has also issued a series of decrees that will extend the presidential term from five to six years and make elections indirect for the state governors and one third of the Senate. These measures virtually ensure that the pro-government party will continue to dominate both the national congress and most state governments, regardless of the popular will.

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[REDACTED] It seems clear that Geisel used the judicial reform issue as merely a pretext to return to strict authoritarian control. Throughout the past 13 years of successive military governments, moves to give civilians a greater political role have been hesitant and frequently reversed by drastic extra-constitutional acts and the frequent changing of election rules.

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[REDACTED] Geisel had gone further than any of his military predecessors to provide for a gradual reinstitution of democratic procedures, but he has now abandoned this approach, apparently as the cumulative result of:

--Growing opposition within the business community to government austerity measures.

--Increasingly strident demands by the opposition party for a return to civilian rule.

--Serious disagreements with the US.

25X1 [ ] It is not clear how the military government will provide a rationale for its continuing hold on power, but the shift to the right domestically could be followed by a more nationalistic posture in foreign policy. [ ]

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#### CANADA-AUSTRALIA: Wheat Dialogue

25X1 [ ] *//Recent US interest in a wheat export price stabilization program has struck responsive chords in Canada and Australia, the world's second and third largest wheat exporters. The Canadians and Australians are exchanging views with other major producers in hopes of presenting a common front at the meeting this summer of the International Wheat Council, where a producer-consumer agreement is likely to be discussed. They appear willing to sacrifice some of their individual marketing flexibility to dampen the boom-bust cycle in the world wheat market.//*

25X1 [ ] *//Declining export prices and rising costs for holding grain stocks have renewed producer interest in stabilizing export prices. Last year's record international wheat harvest and an estimated 10-percent reduction in world import demand lowered export prices to less than half of the peak price in 1974 of more than \$6 a bushel.//*

25X1 [ ] *//Canada and Australia also face growing storage costs because of a buildup in grain stocks. An expected 85-percent increase in Canadian holdings this year will push total storage costs to about \$94 million. Storage costs for Australian stocks could run about \$21 million.//*

25X1 [ ] //Wheat farmers in Canada and Australia are pressing their governments to ensure against declines in real income. Last year, real farm incomes fell in both countries because inflation pushed up operating costs about 10 percent while wheat export prices declined. Without government action, the income squeeze will continue this year.//

25X1 [ ] //Both governments view a producer-consumer price stabilization agreement as the most attractive means to ease periodic price squeezes. Neither Canada nor Australia is committed to any specific proposal, but they apparently agree on the general framework of an international wheat accord.//

25X1 [ ] //At discussions in the International Wheat Council last year, the two governments favored linking price arrangements to a buffer stock policy. Both indicated that a "trigger price" mechanism would be the most acceptable method of determining when stocks should be bought or sold. The trigger prices and amounts would have to be negotiated.//

25X1 [ ] //Canada and Australia are concerned that large international stocks would dampen prices and production. The two countries are also pushing for a system in which grain producers and consumers share storage costs. As the international wheat market now works, the cost of maintaining grain reserves falls largely on the leading exporters.//

25X1 [ ] //The existing marketing structure in both countries would readily accommodate an international wheat accord. Government agencies--the Canadian Wheat Board and the Australian Wheat Board--are the sole wheat buyers and exporters. The proposals for stabilizing export prices probably could be implemented without new legislation.//

25X1 [ ] //Canada and Australia might have to give up some flexibility in setting export prices and timing sales, however. Although both wheat boards generally follow the US price movements in setting export prices, they have not hesitated to use their control over national supplies to obtain the best price possible.//

25X1 [ ] //Prospects for negotiating an international wheat agreement are better than they have been in several years. A common front by the major exporters would ensure more serious

discussions on an agreement at the midyear International Wheat Council meeting. The prospect of stable prices and more secure access to supplies will make negotiations appealing to importing countries.

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MEXICO: Economic Leadership

*//Concern is growing in Mexico that President Lopez Portillo is not moving decisively enough to restore economic growth. The President warned in December that economic conditions would remain serious through mid-1977, but he also raised hopes by pledging to devote himself to solutions. Lopez Portillo must act soon on the economy and a number of lesser issues or face mounting public criticism.//*

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*//Mexico's economy apparently remains stagnant, but significant progress has been made in restoring financial stability and in reducing the foreign trade deficit. The slowdown in industrial activity that began in mid-1976 and was aggravated by floating the peso in September has not been reversed. Inflationary pressures and the trade deficit have been reduced, however. The government says it has attained the first quarter targets set by the International Monetary Fund for controlling the money supply and the budget deficit.//*

*In addition to the continuing economic slowdown, a number of issues that are not serious individually will nonetheless test the administration in the coming months:*

*--Organized labor reportedly will seek either a wage raise by June or a rollback of consumer prices.*

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--//Two unions at the National University have attempted to merge and have planned a nationwide university strike for June 23; the government is determined to avert this and may be negotiating behind the scenes.//

--//Agrarian unrest and peasant land invasions continue. The government is still working quietly to resolve the impasse resulting from former president Echeverria's expropriation of private lands in Sonora last fall. Agrarian Reform Secretary Rojo recently announced that the administration would not tolerate more illegal seizures.//

--The army as usual is worried about its capability to maintain internal security and expects terrorist activity to increase soon.

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//Public criticism of Lopez Portillo's perceived inaction may increase soon. Internal stability is not in jeopardy, but unless the President selects the proper solution from among the conflicting suggestions he is receiving, devises a coordinated program, and moves to blunt the negative political repercussions he reportedly fears, the groundswell of public confidence that has borne him along since his inauguration last December could wane.//

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